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*corp report*

# **AUTCROWN CORPORATION LIMITED**

**ANNUAL REPORT 1971**





March 29, 1972

Financial Editor  
The Globe & Mail  
140 King St. West  
Toronto, Ont.

Gentlemen:

We are pleased to enclose our year-end statement and up-to date quarterly statement covering our performance for this year.

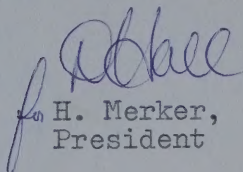
We are looking forward to increased growth through the addition of new product lines.

Should you have any detailed questions please do not hesitate to contact the writer at:

266 Rexdale Blvd.  
Rexdale, Ontario

Phone: (416) 743-6291

Yours very sincerely,

  
H. Merker,  
President

HM/dh

Enc.



AUTOCROWN CORPORATION LIMITED

COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 1970 & 1971

	1971	1970
Gross Sales	\$283,135	\$259,854
Less Sales Returns	<u>1,498</u>	<u>630</u>
Net Sales	<u>\$281,637</u>	<u>\$259,224</u>
Cost of Goods Sold		
Standard Cost	\$169,784	\$173,817
Cost Variances - material	201	( 1,144 )
- labour	25	( 378 )
- overhead	( 1,371 )	3,467
Total Cost of Goods Sold	<u>\$168,639</u>	<u>\$175,762</u>
Gross Profit	<u>\$112,998</u>	<u>\$83,462</u>
Expenses - marketing - distribution	<u>21,364</u>	<u>26,781</u>
- selling	16,386	19,590
- general & administrative	<u>23,968</u>	<u>24,639</u>
Total Expenses	<u>61,718</u>	<u>71,010</u>
Operating income	<u>\$51,280</u>	<u>\$12,452</u>
Scrap Sales	392	305
Miscellaneous	398	400
Total income	<u>\$52,070</u>	<u>\$13,157</u>
Other deductions		
interest expense	3,388	3,913
Miscellaneous	627	
Total other deductions	<u>\$ 4,015</u>	<u>\$ 3,913</u>
Profit (loss) before extraordinary items	\$48,055	\$ 9,244
exchange gain (loss) on translation	( 118 )	( 9 )
Profit before income taxes	<u>\$47,937</u>	<u>\$ 9,235</u>
Taxes on income	21,810	4,042
Net Income	<u>\$26,127</u>	<u>\$ 5,193</u>
Memo:		
Depreciation	\$ 4,655	\$ 4,813





AUTOCROWN CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 1970 AND 1971

ASSETS

	<u>1971</u>	<u>1970</u>
Current:		
Trade Accounts Receivable	\$147,645	\$122,775
Due from Shareholders	-	62
Other receivables	<u>1,640</u>	<u>3,443</u>
		\$126,280
Inventories		
Raw materials	\$ 48,406	\$ 74,704
Work in progress	76,154	70,553
Finished goods	<u>171,654</u>	<u>166,862</u>
	296,214	312,119
Prepaid Expenses & Deposits		
Total Current Assets	4,389	8,668
Fixed Assets:	<u>\$449,888</u>	<u>\$447,067</u>
Machinery & Equipment	\$150,068	\$141,312
Office furniture & Fixtures	10,107	9,650
Automobiles & Trucks	10,302	10,093
Leasehold Improvement	7,400	7,400
	<u>\$177,877</u>	<u>\$168,455</u>
Less accumulated depreciation & amortization	60,879	43,801
	116,998	124,654
Other Assets:		
Deferred development expenditures	729,718	729,378
patents	51,771	51,606
expense of share issued	41,923	41,923
incorporation expenses	1,669	1,669
goodwill	49,813	49,813
deferred debenture discount	<u>28,437</u>	<u>32,438</u>
		\$1,478,548
TOTAL ASSETS	<u>\$1,470,217</u>	<u>\$1,478,548</u>





AUTOCROWN CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 1970 AND 1971

LIABILITIES

1971

1970

Current:		
Bank loans & overdraft	\$117,449	\$112,966
Accounts payable	78,617	144,540
Accrued expenses	9,895	11,055
Sales & other company taxes	4,349	1,376
Other payables	1,335	8,856
10% debenture payable (current)	<u>15,000</u>	<u>15,000</u>
Total Current Liabilities	\$226,645	\$293,793
Deferred income taxes	79,210	39,342
10% debenture payable	<u>108,750</u>	<u>123,750</u>
Total Liabilities		<u>163,092</u>
Shareholders Equity		<u>456,885</u>
Preference shares	298,130	298,130
Common shares	637,567	637,567
Contributed surplus	68,381	68,381
Retained earnings	12,392	12,392
Opening balance	<u>25,407</u>	<u>5,193</u>
Net income		
Total Shareholders Equity	1,055,612	1,021,663
TOTAL LIABILITIES	<u>\$1,470,217</u>	<u>\$1,478,548</u>





AUTOCROWN CORPORATION LIMITED

DIRECTORS

Alan H. Frankel  
Richard C.W. Mauran  
Hardy E.R. Merker  
Terence A. Wardrop  
William Tynkaluk

OFFICERS

Hardy E.R. Merker - President  
Richard C.W. Mauran -Vice President  
Terence A. Wardrop -Secretary

TRANSFER AGENT

National Trust Company, Limited  
Toronto

OFFICE OF COMPANY

266 Rexdale Boulevard  
Rexdale





February 17, 1972

To: The Shareholders

The year 1970/71 was a year of change for our Company.

This year witnessed a re-organization of our Management Group with dramatic results.

Although total sales are lower our profits margins have increased due to increased efficiencies in production and cost control and a more selective and determined effort on the part of our new sales team.

To date in Nineteen Seventy-Two we are experiencing a further increase in profits coupled with a concerted management effort to influence growth through addition of new product lines.

Yours very truly,

A large, stylized handwritten signature in dark ink, consisting of several loops and a long horizontal flourish extending to the right.

H. Merker,  
President

HM/dh





*Clarkson, Gordon & Co.*

*Chartered Accountants*

Royal Trust Tower  
P.O. Box 251 Toronto-Dominion Centre  
Toronto 111, Canada

Halifax Saint John Quebec Montreal Ottawa  
Toronto Hamilton Kitchener London Windsor  
Thunder Bay Winnipeg Regina Calgary  
Edmonton Vancouver Victoria

Arthur Young, Clarkson, Gordon & Co.  
United States—Brazil

Telephone 864-1234 (Area Code 416)

AUDITORS' REPORT

To the Shareholders of  
Autocrown Corporation Limited:

We have examined the consolidated balance sheet of Autocrown Corporation Limited and its subsidiaries as at September 30, 1971 and the consolidated statements of income and retained earnings, source and application of funds and deferred development expenditures for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Included as an asset in the balance sheet are expenditures totalling \$779,544 which have been incurred in connection with the development of machinery and equipment for the manufacture and application of Autocrowns and about which there is uncertainty as to total realization.

In our opinion, subject to the ultimate realization of the deferred development expenditures referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Clarkson, Gordon & Co.*

Toronto, Canada,  
November 19, 1971.

Chartered Accountants





AUTOCROWN CORPORATION LIMITED  
(Incorporated under the laws of Ontario  
and its subsidiaries)

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1971  
(with comparative figures at September 30, 1970)

<u>A S S E T S</u>			<u>L I A B I L I T I E S</u>		
	<u>1971</u>	<u>1970</u>		<u>1971</u>	<u>1970</u>
Current:			Current:		
Accounts receivable	\$ 142,158	\$ 156,007	Bank indebtedness (note 3)	\$ 86,256	\$ 111,039
Due from shareholders		887	Accounts payable and accrued charges	132,645	154,076
Inventories, at the lower of cost and net realizable value -			Current portion of long-term debt	<u>15,000</u>	<u>15,000</u>
Raw materials	51,377	63,266			
Work in process	72,439	64,967	Total current liabilities	<u>233,901</u>	<u>280,115</u>
Finished goods	<u>138,306</u>	<u>133,636</u>			
	262,122	261,869	Deferred income taxes (note 5)	<u>57,400</u>	<u>35,300</u>
Prepaid expenses	<u>4,288</u>	<u>4,394</u>			
			Long-term debt:		
Total current assets	<u>408,568</u>	<u>423,157</u>	10% floating charge redeemable debentures, Series A, payable to a shareholder in quarterly instalments to March 1, 1980 (note 3)	127,500	142,500
			Less instalments due within one year included in current liabilities	<u>15,000</u>	<u>15,000</u>
Fixed, at cost:				<u>112,500</u>	<u>127,500</u>
Machinery and equipment	148,890	140,548	Shareholders' equity:		
Automobiles and truck	10,301	10,093	Capital (note 4) -		
Office furniture and fixtures	9,650	9,409	Authorized:		
Leasehold improvements	<u>7,400</u>	<u>7,400</u>	159,065 5% non-cumulative, convertible preference shares with a par value of \$2.00 each, redeemable at par		
	176,241	167,450	1,000,000 common shares without par value		
Less accumulated depreciation	<u>56,223</u>	<u>38,987</u>	Issued:		
	<u>120,018</u>	<u>128,463</u>	149,065 preference shares	298,130	298,130
			675,935 common shares	637,567	637,567
Other, at cost:			Contributed surplus (no change during year)	68,381	68,381
Deferred development expenditures (note 2)	779,544	779,379	Retained earnings (statement 2)	<u>24,575</u>	<u>12,392</u>
Expenses of share issue	41,923	41,923		<u>1,028,653</u>	<u>1,016,470</u>
Goodwill	51,482	51,482			
Patents	<u>1,606</u>	<u>1,606</u>			
Total, not being amortized	874,555	874,390			
Discount on debentures, less amount written off	<u>29,313</u>	<u>33,375</u>			
	<u>903,868</u>	<u>907,765</u>			
	<u>\$1,432,454</u>	<u>\$1,459,385</u>		<u>\$1,432,454</u>	<u>\$1,459,385</u>

On behalf of the Board:

Director

Director

(See accompanying notes to financial statements)



AUTOCROWN CORPORATION LIMITED  
and its subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1971

(with comparative figures for the year ended September 30, 1970)

	<u>1971</u>	<u>1970</u>
Net sales	<u>\$1,011,815</u>	<u>\$1,204,183</u>
Deduct:		
Cost of products sold, excluding items shown below	684,897	839,549
Selling expenses (statement 5)	172,460	208,555
Administrative expenses (statement 5)	84,782	87,977
Depreciation	19,975	18,459
Bank interest and service charges	11,356	16,323
Debenture interest (note 3)		1,845
Amortization of discount on debentures	4,062	1,875
	<u>977,532</u>	<u>1,174,583</u>
Income before income taxes	34,283	29,600
Provision for deferred income taxes (note 5)	<u>22,100</u>	<u>20,700</u>
Net income for the year	12,183	8,900
Retained earnings, beginning of year	<u>12,392</u>	<u>3,492</u>
Retained earnings, end of year	<u>\$ 24,575</u>	<u>\$ 12,392</u>
Earnings per common share (based on the average number of shares outstanding during the year)	<u>\$ .018</u>	<u>\$ .014</u>

(See accompanying notes to financial statements)





AUTOCROWN CORPORATION LIMITED  
and its subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1971

(with comparative figures for the year ended September 30, 1970)

	<u>1971</u>	<u>1970</u>
Source of funds:		
Operations -		
Net income for the year	\$12,183	\$ 8,900
Add charges not requiring a current outlay of funds:		
Depreciation	19,975	18,459
Provision for deferred income taxes	22,100	20,700
Amortization of discount on debentures	<u>4,062</u>	<u>1,875</u>
	58,320	49,934
Issue of 10% floating charge debentures (net of \$35,000 discount)		115,000
Issue of 70,000 common shares		<u>35,000</u>
	<u>58,320</u>	<u>199,934</u>
Application of funds:		
Purchases of fixed assets (net)	11,530	9,115
Deferred development expenditures	165	7,649
Repayment of 10% floating charge debentures	15,000	22,500
Other		250
	<u>26,695</u>	<u>39,514</u>
Increase in working capital	<u>\$31,625</u>	<u>\$160,420</u>

(See accompanying notes to financial statements)





AUTOCROWN CORPORATION LIMITED  
and its subsidiaries

CONSOLIDATED STATEMENT OF DEFERRED DEVELOPMENT EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 1971

(with comparative figures for the year ended September 30, 1970)

	<u>1971</u>	<u>1970</u>
Balance, beginning of year	<u>\$779,379</u>	<u>\$771,730</u>
Additions:		
Refund of portion of grant received in 1968 under The Industrial Research and Development Incentives Act		667
Salaries and wages		7,560
Consultants' fees		75
Materials and components	22	
Legal (including patent fees) and audit	143	573
General office expenses	<u>165</u>	<u>19</u>
		8,894
Sale of machinery and equipment	<u>165</u>	<u>(1,245)</u>
		7,649
Balance, end of year	<u>\$779,544</u>	<u>\$779,379</u>
Consisting of:		
Deferred development expenditures	\$729,544	\$729,379
Patents	<u>50,000</u>	<u>50,000</u>
	<u>\$779,544</u>	<u>\$779,379</u>

(See accompanying notes to financial statements)



AUTOCROWN CORPORATION LIMITED  
and its subsidiaries

CONSOLIDATED STATEMENTS OF SELLING AND ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 1971

(with comparative figures for the year ended September 30, 1970)

	<u>1971</u>	<u>1970</u>
<u>SELLING EXPENSES</u>		
Salaries and employee benefits	\$ 44,639	\$ 60,399
Freight out	44,435	45,627
Commissions	27,269	39,452
Travel	10,406	20,018
Telephone	10,560	9,314
Advertising and promotion	9,439	7,354
Stationery and office supplies	3,548	3,475
Reel expense (revenue)	(2,077)	3,298
General	14,486	10,768
Shipping and warehousing	<u>9,755</u>	<u>8,850</u>
	<u>\$172,460</u>	<u>\$208,555</u>
<u>ADMINISTRATIVE EXPENSES</u>		
Salaries and employee benefits	\$ 57,555	\$ 53,348
Legal and audit	9,293	13,669
General	9,284	8,616
Travel	5,609	6,768
Stationery and office supplies	<u>3,041</u>	<u>5,576</u>
	<u>\$ 84,782</u>	<u>\$ 87,977</u>

(See accompanying notes to financial statements)





AUTOCROWN CORPORATION LIMITED  
and its subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1971

1. Basis of consolidation

The consolidated financial statements for 1971 and 1970 included the accounts of the company and all of its subsidiaries.

2. Deferred development expenditures

Since incorporation, the company has been engaged in the development of machinery and equipment for the manufacture and application of Autocrowns, and all expenditures to date have been deferred. The ultimate recovery of these expenditures is entirely dependent upon production and sale of Autocrowns, production machinery and other items. To date, there have been no sales of Autocrowns, production machinery and other items.

3. Bank indebtedness and debentures

Bank indebtedness is secured by a pledge of accounts receivable together with a first floating charge on all other assets. The debentures are secured by a second floating charge on all assets.

Interest on the debentures does not commence until March 1, 1973.

4. Share capital

At September 30, 1971, unissued common shares of the company are reserved as follows:

	<u>Number of shares</u>
(a) For possible issuance on conversion of preference shares, on a share for share basis	149,065
(b) For possible issuance on exercise of share purchase warrants entitling the holders to purchase common shares at a price of \$3.00 per share up to December 30, 1983	<u>175,000</u>
	<u>324,065</u>



5. Income taxes

At September 30, 1971 the company and its U.S. subsidiary have amounts totalling \$365,000 available for carry-forward as deductions against future years' profits. Of this total, \$250,000 consists of the tax losses of the parent company as filed with the tax authorities for the years 1967 and 1968 (which losses were made up principally of that portion of the deferred development expenditures required to be deducted for income tax purposes in those years), \$65,000 consists of the operating losses of the U.S. subsidiary for the years 1969, 1970 and 1971, and \$50,000 consists of depreciation charged against earnings but not yet claimed for tax purposes.

At current tax rates, the tax reductions which would result from the carry-forward of these items will, if realized, amount to approximately \$170,000.

In the year ended September 30, 1971 taxes otherwise payable by the parent company of \$22,100 have been eliminated by applying the above mentioned tax losses. This reduction in current taxes payable has been deferred to those future periods when the deferred expenditures will be amortized against earnings.

6. Remuneration of directors and senior officers

Remuneration of directors and senior officers (as such are defined under The Business Corporations Act, 1970) was \$55,650 in 1971 and \$64,536 in 1970.

7. Long-term rental commitment

The lease on the Rexdale premises commits the company to rentals of \$26,000 a year to 1978.







